

Message Text

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INFO OCT-01 EA-07 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 CEA-01 STR-04 IO-10 NEA-10 /106 W

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P 170653Z NOV 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9498

INFO AMEMBASSY JAKARTA PRIORITY

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E. O. 11652: ADS, DECLAS 2/17/76

TAGS: EAID, EFIN

SUBJECT: PROPOSED ADB LOAN - TELUK LADA AREA DEVELOPMENT PROJECT
(PHASE I) (INDONESIA)

USADB

FOR NAC AGENCIES

SUMMARY: ADB MANAGEMENT PROPOSES \$12.2 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO REPUBLIC OF INDONESIA TO FINANCE FOREX COST OF PHASE I OF AREA DEVELOPMENT PROGRAM IN WEST JAVA COMPRISED OF IRRIGATION SYSTEMS, ACCESS ROADS; ASSISTANCE TO FARMER ASSOCIATIONS, SERVICES FOR DELIVERY OF FARM INPUTS; WATERSHED SOIL CONSERVATION AND REFORESTATION; VILLAGE POTABLE WATER SUPPLY AND CONSULTING SERVICES FOR THE ABOVE; ALSO TO FINANCE HALF LOCAL CURRENCY COSTS OF MAJOR COMPONENTS OF PROJECT AND TO CAPITALIZE PORTION OF TECHNICAL ASSISTANCE (TA) PREVIOUSLY GRANTED BY BANK FOR PROJECT FORMULATION. USADB SUPPORTS PROJECT BUT SEEKS NAC GUIDANCE ON PROPOSED LOCAL COST FINANCING. END SUMMARY.

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1. ADB DOC. R110-75 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES NOV. 10. BOARD CONSIDERATION SCHEDULED NOV. 27.

2. ADB MANAGEMENT PROPOSING \$12.2 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO INDONESIA. PROCEEDS WILL FINANCE FOREX COST OF CONSTRUCTING ON TELUK LADA PLAIN OF WEST JAVA TWO IRRIGATION WEIRS AND ASSOCIATED DISTRIBUTION CANALS AND DRAINS; ACCESS ROADS; INTENSIFIED RICE DEMONSTRATION PILOT SCHEMES INCLUDING SUPPORTING SERVICES FOR FARM INPUT DELIVERY AND FARMER ASSOCIATIONS; SOIL CONSERVATION AND REFORESTATION IN CATCHMENT AREA; INSTALLATION OF HAND PUMPS FOR VILLAGE WATER SUPPLY; CONSULTING SERVICES; HALF OF LOCAL CURRENCY (LC) COSTS OF ABOVE CAPITAL INVESTMENT COMPONENTS. LOAN INCLUDES \$100,000 FROM PREVIOUS TA GRANT FOR PROJECT FORMULATION. PROPOSED TERMS ARE 27 YEAR AMORTIZATION INCLUDING 7 YEAR GRACE PERIOD, 8-3/4 PERCENT INTEREST. REPUBLIC OF INDONESIA TO BE BORROWER, DIRECTORATE GENERAL OF WATER RESOURCES DEVELOPMENT (DGWRD) OF MINISTRY OF PUBLIC WORKS AND ELECTRIC POWER TO BE EXECUTING AGENCY.

3. AGRICULTURE CONTINUES AS MAINSTAY OF INDONESIAN ECONOMY, ACCOUNTING FOR 40 PERCENT OF GDP, 60 PERCENT OF EMPLOYMENT, VIRTUALLY ALL NON-PETROLEUM EXPORTS. IN NATIONAL DEVELOPMENT PLAN REPELITA II, GOVT. SEEKS ATTAIN FOOD GRAIN SELF-SUFFICIENCY BY 1978/79. ALMOST 20 PERCENT OF DEVELOPMENT EXPENDITURE IN PLAN TARGETED FOR IRRIGATION AND AGRICULTURE. GOVT. OBJECTIVE IS INCREASED AG EXPORTS, HIGHER PRODUCTIVITY BY FARMERS, REDUCTION RURAL UNEMPLOYMENT. KEY STRATEGY TO ATTAIN INCREASED RICE PRODUCTION ARE PROVISION GOVT SUBSIDY PROGRAMS FOR INPUTS (BIMAS/INMAS) AIMED TO INTENSIFY CROPPING AND RAISE YIELDS. STRATEGY INCLUDES INVESTMENT IN INTEGRATED AREA DEVELOPMENT, INCLUDING PILOT PROGRAMS TO VALIDATE MEANS FOR BETTER COORDINATION OF INVESTMENT IN SPECIFIC AREAS.

4. ONE SUCH AREA IDENTIFIED FOR DEVELOPMENT IS 25,400 HECTARE (HA) TELUK LADA PLAIN AT WESTERN END OF JAVA. LIMITED OFFICIAL USE

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AREA IS DEPRESSED WITH BULK OF POPULATION (131,000) ENGAGED IN LOW-YIELDING RAIN-FED RICE CULTIVATION. AREA LACKS INFRASTRUCTURE, IS SUBJECT TO FLOODING, WATER LOGGING. IN AUGUST 1974, ADB APPROVED \$230,000 TA GRANT TO INDONESIA TO FORMULATE PROJECT. CONSULTANT (SANYU CONSULTANTS INT'L INC.) ON BASIS FIELD WORK BEGUN JANUARY 1975, AND COMPLETED 31 JULY 1975, PREPARED MASTER PLAN STUDY WHICH RECOMMENDED THAT OVERALL DEVELOPMENT OF

TELUK LADA PLAIN IN EIGHT SUB-AREAS BE UNDERTAKEN IN TWO PHASES: PHASE I (FOR WHICH CONSULTANT COMPLETED FEASIBILITY STUDY) TO BE IRRIGATION DEVELOPMENT OF 6,300 HA IN TWO SUB-AREAS SUITABLE FOR IMMEDIATE DEVELOPMENT ON BASIS DEPENDABLE RIVERFLOW OF CILIMAN AND CILEMAR RIVERS, IN AREAS LEAST AFFECTED BY FLOODING. PHASE II TO BE UNDERTAKEN LATER WOULD INCLUDE CONSTRUCTION OF STORAGE DAM AND IRRIGATION WORKS FOR ADDITIONAL 12,000 HA. IMPLEMENTATION OF MASTER PLAN WOULD REQUIRE 10-12 YEARS AND REQUIRE TOTAL INVESTMENT ABOUT U.S. \$90 MILLION (IN 1975 PRICES). PHASE I OF THE MASTER PLAN TO BE FINANCED BY ADB AND IMPLEMENTED UNDER PROPOSED PROJECT; PHASE II IMPLEMENTATION SUBJECT TO FURTHER STUDIES UP TO FEASIBILITY LEVEL.

5. PROPOSED PROJECT COMPRISED OF: (A) CONSTRUCTION OF TWO DIVERSION WEIRS AND TWO IRRIGATION SYSTEMS, NECESSARY DRAINS, CONSTRUCTION OF ACCESS AND FARM-TO-MARKET ROADS AND BRIDGES; (B) ESTABLISHMENT THROUGH RURAL EXTENSION CENTERS OF AGRICULTURE MINISTRY PILOT DEMONSTRATION PROGRAMS INCLUDING FARMER TRAINING, ESTABLISHING FARMER ORGANIZATIONS AND IMPROVING LAND TENURE; (C) PROVISION FOR EQUIPMENT AND FACILITIES TO IMPLEMENT SOIL CONSERVATION/REFORESTATION IN CATCHMENT AREA OF PROJECT; (D) PROVISION OF HAND PUMPS AND RELATED VILLAGE POTABLE WATER SUPPLY FACILITIES, AND CONSULTING SERVICES.

6. TOTAL PROJECT COST ESTIMATED AT \$21.6 MILLION OF WHICH FOREX COMPONENT IS \$7.1 MILLION. FOREX ALLOCATION PROVIDES FOR CONSTRUCTION EQUIPMENT (\$4,150,000); AGRICULTURAL DEVELOPMENT (\$100,000); SOIL CONSERVATION/REFORESTATION (\$130,000); VILLAGE WATER SUPPLY (\$80,000) LIMITED OFFICIAL USE

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PROJECT ADMIN AND FACILITIES (\$640,000); CONSULTING SERVICES (\$1,200,000) AND CONTINGENCIES (\$800,000). LOCAL CURRENCY (LC) ALLOCATION (IN DOLLAR EQUIV) PROVIDES FOR IRRIGATION WORKS (\$8,160,000); ACCESS ROADS (\$1,270,000); CONSTRUCTION EQUIPMENT (\$200,000); AG DEVELOPMENT (\$400,000); SOIL CONSERVATION REFORESTATION (\$550,000); VILLAGE WATER SUPPLY (\$230,000); PROJECT ADMIN AND FACILITIES (\$1,370,000); CONSULTING SERVICES (\$500,000); AND CONTINGENCY (\$1,820,000). SULLIVAN

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INFO OCT-01 EA-07 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

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LAB-04 SIL-01 OMB-01 CEA-01 STR-04 IO-10 NEA-10 /106 W

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7. BANK PROPOSES \$12.2 MILLION LOAN TO BE ALLOCATED TO COVER ALL FOREX COSTS (\$7.1 MILLION); \$100,000 TO CAPITALIZE ACTUAL EXPENDITURES MADE IN EXCESS OF \$100,000 BY PREVIOUS \$200,000 TA GRANT FOR PROJECT FORMULATION AND FEASIBILITY DETERMINATION OF PHASE I; AND \$5 MILLION EQUIV. OF LC COVERING ABOUT ONE-HALF THE COST OF CAPITAL INVESTMENT ITEMS ALLOCATED ABOVE (INCLUDING IRRIGATION WORKS, ROADS, AG DEVELOPMENT, SOIL CONSERVATION/REFORESTATION AND VILLAGE WATER SUPPLY). GOVT ASSURES BALANCE OF LC REQUIRED (\$9.5 MILLION EQUIVALENT) FOR PROJECT WILL BE PROVIDED IN TIMELY FASHION THROUGH RECURRING GOVT. BUDGET (LOAN AGMT SEC. 5.02(A) AND SIDE LTR. NO. 4, PARA 4).

8. EXECUTING AGENCY FOR MAJOR PROJECT COMPONENTS WILL BE DGWRD, CONSIDERED CAPABLE OF IMPLEMENTING PROJECT. DGWRD ALSO EXECUTING AGENCY VARIOUS BILATERAL/MULTILATERAL FINANCED PROJECTS INCLUDING 3 IRRIGATION PROJECTS FINANCED BY BANK. TO EXTENT LOAN COVENANTS OF THESE PROJECTS HAVE BECOME OPERATIVE, GOVT HAS SUBSTANTIALLY COMPLIED WITH TEMS. DGWRD WILL ESTABLISH PROJECT OFFICE, APPOINT PROJECT MANAGER. GOVT WILL APPOINT CENTRAL COORDINATING COMMITTEE IN JAKARTA COMPRISED OF

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RELEVANT MINISTRIES INVOLVED; AND LOCAL INTER-MINISTRY TEAM AT PROJECT SITE. COMPOSITION AND LEADERSHIP THESE TEAMS TO BE SET UP IN CONSULTATION WITH BANK (SIDE LTR. 4, PARA 3(B) AND (C)). GOVT ASSURES CONSTRUCTION EQUIPMENT TO BE PROCURED BY DGWRD WILL BE USED BY CONTRACTORS ON PROJECT AND LATER FOR SIMILAR PURPOSES IN CONSULTATION WITH BANK (SIDE LTR. NO. 4, PARA 15). GOVT. ALSO ASSURES LAND AND RIGHTS-OF-WAY NEEDED WILL BE ACQUIRED AND MADE AVAILABLE AS NECESSARY (SIDE LTR. NO. 4, PARA 5).

9. PROCUREMENT TO BE IN ACCORD BANK'S GUIDELINES WITH SUPPLY CONTRACTS OVER \$100,000 THROUGH INT'L COMPETITIVE BIDDING; UNDER \$100,000 ON BASIS INT'L SHOPPING. CIVIL WORKS CONTRACTS TO BE AWARDED TO PRE-QUALIFIED LOCAL CONTRACTORS EXCEPT FOR THOSE FARM DITCHES AND DRAINS THAT FARMERS/FARMER ASSOCIATIONS CAN COMPLETE BY THEMSELVES. IN ANY EVENT, GOVT ASSURES ALL FARM DITCHES AND DRAINS WILL BE COMPLETED WITHIN 24 MONTHS AFTER COMPLETION OF RELEVANT FEEDER SECONDARY CANALS (SIDE LTR 4, PARA 6).

10. GOVT TO CONDUCT TOPO MAPPING PRIOR TO ARRIVAL OF CONSULTANTS; EXISTING ROADS AND BRIDGES TO BE IMPROVED BY 1977; IRRIGATION CIVIL WORKS TO START 1978; VILLAGE WATER SUPPLY TO BE INSTALLED BY 1978 AND ENTIRE PROJECT COMPLETED BY MARCH 1983.

11. CONSULTANTS, TO BE SELECTED IN ACCORD BANK'S GUIDELINES, TO DO DETAILED DESIGNS, TENDER DOCS, BID EVALUATION, SUPERVISE CONSTRUCTION, HELP PREPARE IMPLEMENTATION PLAN FOR INITIAL O AND M AND PERFORM ON-JOB TRAINING OF COUNTERPARTS. ESTIMATED 174 MAN/MONTHS OF SERVICES REQUIRED.

12. LOCAL IRRIGATION SECTION (PANDEGLANG) OF PUBLIC WORKS DEPT. OF WEST JAVA PROVINCE TO BE PHASED IN DURING CONSTRUCTION AND INITIAL TWO YEARS OPERATION TO EVENTUALLY ASSUME O & M OF PROJECT UNDER BANK-APPROVED IMPLEMENTATION PLAN. PLAN TO INCLUDE APPROPRIATE PROVISIONS FOR COLLECTING WATER USE CHARGES THROUGH LIMITED OFFICIAL USE

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LAND TAX (IPEDA) OR OTHER SCHEME SUCH THAT SUFFICIENT REVENUE ACCRUES TO COVER ALL O & M COSTS PLUS RECOVERY OF REASONABLE PORTION OF CAPITAL EXPENDITURE (LOAN AGMT. SECT. 5.13).

13. PROJECT CONSIDERED TECHNICALLY FEASIBLE, ECONOMICAL-

LY VIABLE AND INSTITUTIONALLY SOUND, ECONOMIC RATE OF RETURN ESTIMATED AT 14.6 PERCENT. MAIN BENEFICIARIES ARE PROJECT AREA FARMERS TOTALLING ABOUT 9400 HOUSEHOLDS MOSTLY AT SUBSISTENCE LEVEL AT ABOUT \$32 PER CAPITA ANNUAL INCOME. PROJECT EXPECTED RESULT FOURFOLD INCREASE FARMER INCOME EVEN AFTER PAYMENT INCREASED FOR LAND TAX/WATER USE CHARGES; EXPECTED TO REVERSE TREND INCREASING DISPARITY URBAN/RURAL PER CAPITA INCOME EXACERBATED BY MALDISTRIBUTION OIL REVENUES AND URBAN DEVELOPMENT. PROJECT ALSO TO CONTRIBUTE TO GOVT FOOD-GRAIN SELF-SUFFICIENCY GOAL BY INCREMENTAL PRODUCTION 23,300 METRIC TONS MILLED RICE/YEAR. PROPOSED LOAN FINANCING OF HIGH PERCENTAGE (ABOUT 50 PERCENT) PROJECT LOCAL CURRENCY INVESTMENT COSTS (34 PERCENT ALL LC COSTS) JUSTIFIED BY BANK ON BASIS INDONESIA'S PRESENT BALANCE OF PAYMENTS POSITION, STRONG SOCIAL ORIENTATION OF PROJECT AND REQUIREMENT FOR HEAVY INVESTMENT NEXT 2-3 YEARS BEFORE PROJECT BENEFITS BEGIN TO BE REALIZED.

14. USADB SUPPORTS PROJECT BUT SEEKS NAC GUIDANCE ON LOCAL COST FINANCING. REQUEST U.S. MISSION JAKARTA COMMENTS FOR NAC AGENCIES, INFO USADB MANILA PURSUANT TO STATE 119798 DTD 3 JULY 1972.
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